

**STATE BOARD OF EQUALIZATION**

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March 18, 1987

Dear Mr.

This is in response to your letter dated January 26, 1987, in which you request our advice on the applicability of the change in ownership statutes to four proposed variables of the following example:

"Corporation A is a landowner with a 1975 base year value on vacant land.

Corporation B is a developer of commercial and industrial buildings.

During 1985, Corporation A and Corporation B form a partnership to develop Corporation A's property."

"Question:

1. If Corporation A receives an 80% interest in the partnership for his land contribution to the partnership what percentage of the land value is subject to reassessment?"

Response:

Revenue and Taxation Code section 61(i) provides that the transfer of any interest in real property between a corporation, partnership, or other legal entity is a change in ownership. An exception to this general rule is stated in Revenue and Taxation Code section 62(a)(2). Section 62(a)(2) provides that any transfer between an individual and a legal entity or between legal entities which results solely in a change in the method of holding title to real property and in which proportional ownership interests of the transferors and transferees in each and every piece of real property

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transferred remain the same after the transfer, is not a change in ownership. In your example, prior to the transfer Corporation A owned 100% of the land. After the transfer, the land will be owned by a partnership in which A owns 80% and B owns 20%. Therefore, the proportional ownership interests in the land are not the same after the transfer as before. Section 62(a)(2) would, therefore, not be applicable and the transfer would result in a change in ownership of the entire property.

"Question:

2. If Corporation A receives a 50% interest for his contribution what percentage of the land is subject to reassessment?"

Response:

The response to this question is the same as the answer to the first question. The transfer of property from one legal entity to another legal entity is a change in ownership under section 61(i). Because the proportional ownership interests do not remain the same, the entire property is subject to reassessment.

"Question:

3. If Corporation A set up a wholly owned subsidiary Corporation C and transferred the land to Corporation C what percentage of the land would be subject to reassessment?"

Response:

Revenue and Taxation Code section 64(b) excludes from change in ownership any transfer of real property among members of an affiliated group. Since Corporation C is a wholly owned subsidiary of Corporation A, Corporation A and Corporation C are members of an affiliated group within the definition of 64(b). Therefore, the transfer of land from A to C would not result in a change in ownership.

"Question:

4. If Corporation C were to issue 50% of their stock to Corporation A what percentage of the land would be subject to reassessment?"

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Response:

It is unclear what you mean in this question. If you mean that before the transfer of the property to Corporation C, 50% of C's stock would be issued to A and 50% to another party, then when the property was transferred to C, there would be a change in ownership under section 61(i).

I hope this information is helpful to you. If you have any further questions or wish to discuss this further, please contact me.

Very truly yours,

Michele F. Hicks

Michele F. Hicks
Tax Counsel

MFH:cb
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cc: Mr. Gordon P. Adelman
Mr. Robert H. Gustafson
Mr. Verne Walton
Hon. Gregory J. Smith, San Diego County Assessor